

Message Text

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45

ACTION TRSE-00

INFO OCT-01 ARA-06 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00

IO-13 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-07

FRB-03 H-02 INR-07 L-03 LAB-04 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 STR-04 ITC-01 PRS-01 SP-02

OMB-01 /088 W

----- 094271

O R 101100Z JUL 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 6704

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 6034

PASS TREASURY DEPUTY ASSISTANT SECRETARY SUCHMAN

E.O. 11652: GDS

TAGS: EFIN, ETRD, BR

SUBJ: SIMON-SIMONSEN AGREEMENT ON LEATHER HANDBAGS

REF: SUCHMAN/DEFALCO TELECON

1. FRANCISCO DORNELLES CALLED FINAT EARLY THIS MORNING (JULY 9) AND, IN VERY ANGRY TONES, COMPLAINED THAT THE US WAS NOT KEEPING ITS PART OF THE AGREEMENT ON THE WAIVER OF COUNTERVAILING DUTIES ON LEATHER HANDBAGS WHICH WAS AGREED UPON DURING SECRETARY SIMON'S VISIT. DORNELLES' POINT WAS THAT WHILE THE GOB HAD REDUCED THE ICM CREDITS AS AGREED ON JULY 1, THE US HAD NOT, AS OF JULY 9, ISSUED ITS WAIVER. HE CLAIMED THAT, AS A RESULT, EXPORTERS OF LEATHER HANDBAGS HAD BARRAGED THE MINISTRY WITH TELEXES (HE SAID 50 SUCH MESSAGES HAD BEEN RECEIVED) ASKING FOR IMMEDIATE ACTION SINCE THEIR PRODUCTS WERE CONTINUING TO BE SUBJECTED TO THE DUTIES. DORNELLES
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INDICATED THAT, UNLESS THIS MATTER WAS RESOLVED BY MIDDLE OF

NEXT WEEK, IT MIGHT VERY WELL HIT THE PRESS. IN THE SAME BREATH, HE THREATENED TO BREAK THE WHOLE AGREEMENT UNLESS THE WAIVER WAS MADE EFFECTIVE AS OF JULY 1.

2. SINCE FINATT HAD DISCUSSED THE TIMING OF THE WAIVER WITH SUCHMAN YESTERDAY (JULY 8) HE TRIED TO EXPLAIN TO DORNELLES THAT JULY 1 WAS THE OPERATIVE DATE WITH RESPECT TO EXPORTS LEAVING BRAZIL AND NOT WITH RESPECT TO THOSE ENTERING THE US MARKET AS OF THAT DATE. HENCE, HE INDICATED THAT THE WAIVER WAS TO BE APPLIED ONLY ON EXPORTS LEAVING BRAZIL AS OF JULY 1, SINCE, AFTER ALL, THE REDUCTION OF THE ICM WAS APPLICABLE ONLY ON EXPORTS OF LEATHER HANDBAGS AS OF THEN. DORNELLES BRUSHED THIS ARGUMENT ASIDE MAINTAINING THAT THE SIMON-SIMONSEN LETTER STATED THAT THE WAIVER WOULD GO INTO EFFECT AS OF JULY 1.

3. COMMENT: AS THE SUCHMAN/DEFALCO TELECON CONFIRMED, THE LOGIC OF THE CASE IS STRONGLY IN OUR FAVOR SINCE IT WOULD BE IMPOSSIBLE FOR TREASURY TO JUSTIFY A WAIVER ON IMPORTS WHICH LEFT BRAZIL BEFORE JULY 1 (AND ENTERED THE US ON OR SHORTLY AFTER JULY 1), AND WHICH RECEIVED THE BENEFITS OF THE HIGHER ICM CREDITS. THE LANGUAGE OF THE SIMON-SIMONSEN LETTER, HOWEVER, DOES NOT SPELL OUT WHAT WAS MEANT BY THE APPLICATION OF THE WAIVER AS OF JULY 1. DISINGENUOUSLY OR NOT DORNELLES MAINTAINS THE INTERPRETATION THAT IT IS MEANT TO BE APPLIED ON IMPORTS ENTERING THE US, RATHER THAN ON EXPORTS LEAVING BRAZIL AS OF JULY 1. WE HOPE THAT DURING HIS PROMISED CALL TO DORNELLES SUCHMAN CAN CONVINCE HIM OF THE LOGIC OF OUR POSITION. SINCE IT IS UNLIKELY THAT WE CAN GIVE ANY OTHER DEFINITION TO THE "APPLICATION OF THE WAIVER AS OF JULY 1", AND SINCE THIS IS GOING TO MAKE DORNELLES FEEL THAT WE BROKE THE AGREEMENT, IT IS VERY POSSIBLE THAT THIS MATTER WILL ULTIMATELY HIT THE PRESS. WE WOULD, THEREFORE, VERY MUCH APPRECIATE RECEIVING PRESS GUIDANCE FROM TREASURY, WHICH WAS PROMISED BY SUCHMAN, FOR OUR USE SHOULD THE CASE COME OUT IN THE NEWSPAPERS NEXT WEEK.

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Enclosure: n/a
Executive Order: GS
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Margaret P. Grafeld
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